

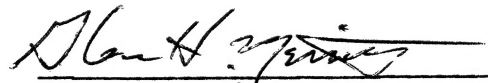
REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

215.2

THE STATE BOARD OF EQUALIZATION
- - -
WAYS TO ACCELERATE COLLECTION OF
SELECTED BUSINESS-RELATED TAXES

March 1976

Respectfully submitted,


Glen H. Merritt
Chief Deputy Auditor General
December 23, 1975

Staff:

Curt Davis
Jerry Silva
John Sontra



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



CHAIRMAN
MIKE CULLEN
LONG BEACH

MIKE CULLEN
CHAIRMAN

VICE CHAIRMAN
CLARE BERRYHILL
CERES

ASSEMBLYMEN
EUGENE A. CHAPPIE
ROSEVILLE
JOHN FRANCIS FORAN
SAN FRANCISCO
BOB WILSON
LA MESA

SENATORS
ANTHONY BEILENSEN
BEVERLY HILLS
GEORGE DEUKMEJIAN
LONG BEACH
JAMES R. MILLS
SAN DIEGO

March 4, 1976

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

This fourth Auditor General's report relevant to the State's cash management and investment practices again concludes that earlier remittance of taxes collected by private companies would be profitable to the State.

The Auditor General again recommends a bank collection account to reduce total time between remittance and investment by the State.

Understandably, the State's gain would seem detrimental to companies now enjoying the fruits of delayed delivery of the State's money.

The auditors are Curt Davis, Gerald Silva and John P. Sontra.

Respectfully submitted,

MIKE CULLEN, Chairman
Joint Legislative Audit Committee

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
FINDINGS	3
WRITTEN RESPONSE TO AUDITOR GENERAL'S REPORT - Executive Secretary, State Board of Equalization	22
APPENDIXES:	
Appendix A - Summary of the Type and Number of Retailers Filing Sales Tax Returns and the Associated Due Dates for Remitting Sales Taxes Both Currently and Assuming That: 1) Current Prepayment Retailers Would Be Converted To A Monthly Reporting Basis and 2) All Monthly Returns With Accompanying Remittances Be Filed By the 20th Day of the Month of Collection. Also Estimated Additional Annual Interest Earnings Each Assumed Change Would Generate Assuming a Rate of Return on Investment of Six Percent Per Year.	24
Appendix B - Summary of Estimated Additional Annual Interest Earnings Based Upon Three Alternative Due Dates for Remitting Gasoline Taxes Assuming a Rate of Return on Investment of Six Percent Per Year.	25
Appendix C - Auditor General's Estimate of Average Time Required For Mail Delivery to Sacramento From California Businesses.	26
Appendix D - Auditor General's Preliminary Estimate of Additional Annual Bank Costs to Use a State Bank Collection Account for Sales, Gasoline, Alcohol and Beverage Taxes collected by the State Board of Equalization.	27

SUMMARY

This report covers the collection of state sales, gasoline insurance premium and alcohol and beverage taxes which are administered by the State Board of Equalization. We have recommended several legislative changes which if executed would improve the State's cash flow and increase interest income to the State.

<u>Findings</u>	<u>Page</u>
Earlier remittance to the State of sales, gasoline and insurance premium taxes would enable the State to invest these funds sooner and earn an estimated \$6.2 to \$8.4 million in additional interest income annually.	3
Recommendation	15
California statutes permit the timely payment of sales, gasoline and alcohol and beverage taxes through the U.S. mails, postmarked as late as the delinquent date. We estimate the total time elapsed before money remitted by businesses can be invested by the State is approximately 3.91 calendar days. If the State required businesses to remit sales, gasoline and alcohol beverage taxes directly to a bank collection account, net interest income to the State should be increased.	17
Recommendation	21

INTRODUCTION

In response to a legislative request, we have reviewed the operations of the State Board of Equalization relative to the collection of certain business taxes. This review is part of an overall review of the state's revenue agencies. Related reports were issued in January 1975 on the operations of the Franchise Tax Board (No. 215.1) and in November 1975 on collection of payroll taxes by the Department of Benefit Payments (No. 216.3).

The five member State Board of Equalization was created in 1879 to equalize the property assessment levels in California counties. Four members are elected from areas of the State known as equalization districts, and a fifth, the State Controller, is elected at large. Since its inception the Board has been given other responsibilities including the collection of these business taxes: state, city, county, and transit district sales and use; cigarette; insurance gross premium; alcoholic beverage; private (railroad) car; gasoline; use fuel; transportation; and an energy resources surcharge.

During fiscal year 1974-1975, the Board collected \$5.4 billion in business taxes, including \$925 million collected for and returned to local jurisdictions.

We evaluated the operating efficiency of the Board regarding the collection of taxes and compared current California collection policies with those of the federal government and other states.

Generally, the Board is efficient and effective in the enforcement of tax laws and the collection of taxes. However, some other governmental entities collect the same types of taxes on a more accelerated basis than does California.

FINDINGS

EARLIER REMITTANCE TO THE STATE OF SALES,
GASOLINE, AND INSURANCE PREMIUM TAXES WOULD
ENABLE THE STATE TO INVEST THESE FUNDS SOONER
AND EARN AN ESTIMATED \$6.2 TO \$8.4 MILLION
IN ADDITIONAL INTEREST INCOME ANNUALLY.

If the State of California collected sales, gasoline and insurance premium taxes sooner than they now do, the State would be able to invest these monies earlier and earn additional interest income.

Currently, retailers in California are allowed to keep sales taxes, which they have collected from their customers, for a longer period than is permitted in most other states. In addition, gasoline distributors in California are allowed to delay payment of taxes due to the State for gasoline already delivered, for a longer period than is permitted by any other state or the federal government. Insurance companies in California are allowed more time to pay their insurance premium taxes to the State than other types of businesses are allowed to pay their income taxes.

If California collected these taxes earlier, as described in the following sections, the State would be able to invest the monies earlier, and earn an estimated \$6.2 to \$8.4 million annually in additional interest income.^{1/}

^{1/}These estimates are based on an assumed conservative rate of return on investment of six percent per year. Currently the State of California, through the Pooled Money Investment Board, invests temporarily excess state funds to earn additional revenue for the State. The average rate of return on these investments during FY 1974-75 was 8.623 percent, and during the first six months of FY 1975-76, is estimated to be 6.75 percent.

Sales Taxes

If California amended its sales tax collection policies to conform with those of the majority of other states, it would be able to collect and invest sales tax revenues sooner, and earn an estimated \$3.6 million annually in additional interest income.

In California, retailers retain for a period of 20 to 396 days the sales taxes collected from customers. Until the money is paid to the State, retailers may invest and use the funds as they wish. Currently there are about 473,000 retailers filing sales tax returns.

The frequency of remittance of sales taxes to the State is determined by a retailer's total amount of sales taxes collected. Currently, retailers remit collections to the State on either a prepayment monthly, quarterly, or yearly schedule as follows:

- Prepayment Schedule - Retailers whose taxable sales on the average exceed \$17,000 per month (\$1,020 or more per month in sales tax). These retailers file two prepayment forms and one quarterly sales tax return for every quarterly period. The prepayments are due by the 20th of the month following the month of the taxable sale, and must equal at least 90 percent of the sales taxes collected by the retailer during the preceding month. ^{2/}

^{2/} Businesses may satisfy the prepayment requirement by paying an amount equal to one-third of the tax liability reported from the same quarter of the preceding year.

The quarterly return for these retailers, together with the sales taxes collected during the third month of the quarter and any unremitted amounts collected during the first two months, are due by the last day of the month following the end of the quarter.

- Monthly Schedule - Retailers who collect between \$250 and \$1,020 per month in sales tax. These retailers have been assigned a monthly reporting schedule by the State Board of Equalization because they requested such assignment or because the Board felt such assignment would facilitate or ensure payment of the sales taxes. Monthly sales tax returns are due by the last day of the month following the month during which the taxable sales are made.
- Quarterly Schedule - Retailers, other than those on a monthly schedule, who collect between \$12.50 and \$1,020 per month in sales tax. Quarterly sales tax returns are due by the last day of the month following the last month of the quarter.
- Yearly Schedule - Retailers who collect less than \$12.50 per month in sales tax. Yearly sales tax returns are due by the last day of the month following the last month of the retailers' fiscal year.

With the exception of the two prepayments by large-volume retailers during the first and second month of each quarter, retailers

in California are allowed more time to remit collected sales taxes to the State than is given retailers in most other states collecting sales taxes. For example, retailers in 36 states must report and remit sales tax collections on a monthly schedule. The remittances are due by the 15th of the month following collection in 11 states, by the 20th of the month following collection in 14 states, by the 25th of the month following collection in 2 states, and by the last day of the month following collection in the other 9 states.

By comparison, only 21 percent of retailers in California (7 percent who report taxes on a prepayment schedule and 14 percent who report taxes on a monthly schedule) remit tax collection as often as once a month, and only the 7 percent of retailers on a prepayment schedule need to remit collections as early as the 20th of the month following collection as is required by retailers in 25 of the states mentioned above, including the 11 states that require remittances by the by the 15th of the month.

Two changes in current collection procedures and reporting requirements would place California on a more equal basis with the collection and reporting requirements used by the majority of other states. These two changes, which would enable the State to invest its tax funds sooner and provide the State with an investment opportunity to earn an estimated \$3.6 million annually in additional interest income, would be to:

- Convert to a monthly reporting basis all current prepayment retailers
- Require that all monthly returns with accompanying

remittances be filed by the 20th of the month
following the month of collection.

Appendix A on Page 22 summarizes the types and number of California retailers filing sales tax returns and the associated due dates for remitting sales taxes both currently and under the two changes noted above. The modifications in collection procedures and reporting requirements that would be required of prepayment and monthly schedule retailers in California if the two changes noted above were adopted by the State are discussed below.

Prepayment Schedule Retailers

The conversion of retailers from a prepayment to a monthly schedule would accelerate the collection of sales taxes in two ways and would permit the State to earn an estimated \$2.6 million annually in additional interest income.

First, current prepayment retailers would be required to remit monthly all sales tax collected during the preceding month, instead of only 90 percent as now required. This would result in about \$17 million being collected 71-1/4 days sooner the first month of each quarter and \$17.7 million being collected 41-1/4 days sooner the second month. For example, under the current 90 percent prepayment requirement the State receives approximately \$153.7 million and \$159.7 million on February 20th and March 20th, respectively, from prepayment schedule retailers.^{3/} The State would receive \$170.7 million on those dates

3/ Based on sales tax collections during 1975.

from the same retailers if current prepayment retailers were required to remit all sales taxes collected during the preceding month. Earlier payment of these larger amounts would permit the State to invest the funds and earn an estimated \$1.3 million annually in additional interest income.

Second, current prepayment retailers would be required to remit quarterly sales tax payments by the 20th of the month, instead of on the last day of the month as is now required. This would result in the State collecting about \$856 million in sales taxes 10-3/4 days earlier every year.^{4/} Earlier collection of this amount would permit the State to earn an estimated \$1.3 million annually in additional interest income.

Monthly Schedule Retailers

The conversion of the due date for monthly sales tax returns from the last day of the month to the 20th would permit the State to earn an estimated \$1 million in additional interest income annually.

Currently, there are 25 other states that require payments of sales taxes by the 20th of each month or earlier. We estimate that if current monthly schedule retailers were required to remit sales tax payments by the 20th of the month following the month of collection, the State would collect an average of \$47.4 million in sales taxes 10-1/2 days earlier every month.^{4/}

^{4/} Based on sales tax collections during 1975.

Quarterly and Yearly Schedule Retailers

Currently retailers on quarterly and yearly payment schedules remit approximately \$463 million annually in state sales taxes. However, no change in the reporting and remittance requirements for these two classes of retailers is proposed because any increased interest revenue is not sufficient to justify additional processing costs.

Gasoline Taxes

If California amended its gasoline tax collection policies to conform with those of the majority of other states, the State would earn a minimum of \$700 thousand annually in additional interest income. However, if the State collected gasoline taxes as rapidly as the federal government, the State would earn an estimated \$2.9 million annually in additional interest income.

Each year California collects about \$700 million in gasoline and similar fuels taxes. This tax is levied at the rate of seven cents per gallon and is paid to the State by the companies or individuals (distributors) who make the first distribution of gasoline in California. Thirty-eight of the 115 licensed gasoline distributors in California are major oil companies that pay about 99 percent of the taxes.

Under existing California law the remittance of gasoline taxes to the State is due on the first day of the second month following the

month the gasoline was first distributed. (For example, taxes on gasoline delivered to a service station pump during October would be due December 1.) This law, in effect since 1931, allows distributors of gasoline in California a longer time to remit gasoline taxes to the State than is allowed by any other state or the federal government.

Described below are three alternative gasoline tax collection periods currently in use by the federal government or by other states. All of the alternatives, if required by California, would shorten the time allowed for gasoline distributors to remit taxes to the State. Depending upon the alternative, the State could invest the funds and earn from \$700 thousand to \$2.9 million in additional interest income annually.

The three alternative collection periods are, in summary, as follows:

- Semi-monthly remittances as required by the federal government
- Monthly remittances by the 20th of the month following distribution as required by 14 states
- Monthly remittances by the 25th of the month following distribution as required by 16 states.

Semi-Monthly Remittances

The federal tax rate on gasoline is four cents a gallon and is applicable on gasoline sold by any producer or importer. This is similar to the California law which places the tax burden on the company or individual who makes the initial distribution of the gasoline.

Semi-monthly deposits are required if the tax liability in any month of a previous quarter exceeded \$2,000. The deposits are due on the 9th of the month for gasoline distributions made for the last half of the preceding month and on the 24th of the month for the first half of the current month's distributions. The semi-monthly deposits must be at least 90 percent of the total tax due for the semi-monthly period. The balance is due when the quarterly return is filed on the last day of the month following the end of the calendar quarter, unless the underpayment is in either of the first two months of the calendar quarter. In this case, the underpayment must be paid by the 9th day of the second month following the month of underpayment.

If California's gasoline taxes were payable in this manner, rather than the first day of the second month after delivery, it would mean additional revenues from interest income of \$2.9 million annually.

Monthly Remittances Due by the 20th

Currently, 14 states require gasoline taxes to be remitted each month by the 20th of the month following distribution. This is an average of 11.4 days earlier each month than required by California. If California's gasoline taxes were payable in the same manner as required by these states, it would mean additional revenues to the State from interest income of \$1.3 million annually.

Monthly Remittances Due by the 25th

Sixteen states require remittances of gasoline taxes be made by the 25th of the month following distribution. This is an average of 6.4 days earlier each month than required by California. If California's gasoline taxes were payable by the 25th of each month, over \$700 thousand in additional interest income would be earned annually from the earlier investment of the tax funds.

Appendix B summarizes the estimated additional annual interest earnings for each of the three alternatives described above.

Insurance Premium Taxes

If California collected insurance premium taxes in the same time frame as it collects corporate income taxes, the State would

earn an estimated \$1.9 million annually in additional interest income.

Insurance companies operating in California are subject to a tax on gross insurance premiums collected and are exempt, except as to unrelated business income, from the California income tax.

The premium tax, for most lines of insurance, is 2.35 percent of gross premiums received from business done in California and is payable partly throughout the year in which the premiums are collected, and partly the following year. The tax payments made during the calendar year are payable in three installments of 26-1/2 percent of the prior year's total premium tax on the 15th of May, August, and November. Any remaining amount due on the basis of actual premiums collected during the year is payable with the return on April 1 following the year in which the premiums are collected.

For businesses subject to the payment of California income taxes (all businesses except insurance companies), the income tax is payable in four equal installments of 25 percent of the estimated current year's income tax liability. The estimated tax, applicable only if the amount due each year is over \$200, is payable on the 15th day of the 4th, 6th, 9th and 12th month of the taxpayer's current income year. In the case of a calendar year taxpayer, for example, installments would be due on the 15th of April, June, September, and December.

Under the reporting and collection procedures for insurance premium taxes and income taxes, as described above, insurance companies submit taxes to the State less frequently than do businesses paying income taxes. For example, each year the first premium tax installment payment is not due until 30 days after the first income tax installment payment (May 15 compared to April 15). Subsequent installments payments are also due at a later date for insurance companies. For example, the second and third installments, due June 15 and September 15 for businesses paying income tax, are not due until August 15 and November 15 (2 months later in each case) for insurance carriers paying premium tax. The final tax payment for taxes accrued during the income year is due December 15 of the income year for businesses paying income taxes, but it is not due until April 1, 3-1/2 months later, for insurance companies.

For the calendar year ended December 31, 1974, the State collected about \$200 million in premium taxes. If insurance premium taxes were payable in quarterly installments in the same manner as income taxes are required to be paid, the State could invest the funds earlier and earn estimated additional interest income annually of \$1.9 million.

CONCLUSION

Earlier remittance to the State of state sales, gasoline, and insurance premium taxes would enable the State to invest these monies earlier and increase state interest income.

RECOMMENDATION

The Senate and Assembly Committees on Revenue and Taxation, or other committees as appropriate, consider legislation to accelerate the collection of state sales taxes, gasoline taxes and insurance premium taxes. Specifically such legislation should require:

- Monthly and prepayment scheduled retailers to report and remit sales tax to the State by the 20th day of the month following the month of collection
- Gasoline distributors to report and remit the tax to the State under one of three alternative collection periods as follows:
 1. Semi-monthly with the taxes due on the 9th of the month for gasoline distributions made for the last half of the preceding month and on the 24th of the month for the first half of the current month's distributions
 2. Monthly with the taxes due by the 20th of the month following distribution
 3. Monthly with the taxes due by the 25th of the month following distribution
- Insurance companies to report and remit gross premium taxes to the State on a quarterly basis in the same manner as required of other business companies for the payment of income taxes.

SAVINGS

Implementation of this recommendation will result in the State earning an estimated \$6.2 to \$8.4 million annually in interest income.

USE OF A BANK COLLECTION ACCOUNT FOR
THE COLLECTION OF STATE SALES, GASOLINE,
AND ALCOHOL AND BEVERAGE TAXES SHOULD
INCREASE STATE INTEREST INCOME.

If the State required businesses to remit sales, gasoline and alcoholic beverage taxes directly to a bank collection account, similar to that used by the federal government, net interest income to the State on State Board of Equalization deposits would be increased an estimated \$1.65 million annually.

The federal government requires that most federal payroll and excise taxes be deposited directly into banks by employers no later than the due date. Approximately 80 percent of revenue collectible through the federal tax deposit system is collected by banks. For deposits of small amounts, the employers may mail tax payments directly to the federal government. However, the employers must be able to provide proof that such payments were placed in the mail two days before the delinquent date.

In contrast to the federal requirements, California statutes permit the timely payment of state taxes through the U.S. mails, postmarked as late as the delinquent date. The State does not have a bank collection system which would eliminate mail delivery time and time required to make deposits.

During our review, we made tests to determine mail delivery time for various periods from April to August 1975. Based on postmarks, we found that the mail delivery time ranged from 1.55 to 1.78 business days and averaged 1.64 business days. These tests agreed with the results of a mail delivery study we made during our review of the Department of Benefit Payments, and reaffirmed the results of a study made previously for the Department of Human Resources Development by a consultant. In his report of February 1973, the consultant stated the average mail delivery time was 1.6 business days.

The consultant also reported that eight percent of the mail placed in sidewalk boxes before 5:00 p.m., and 81 percent of the mail placed in sidewalk boxes after 5:00 p.m., received the next day's or a following day's postmark. Further, large retailers are likely to mail late in the day so as not to jeopardize their interest accruals for the day. Currently large retailers remit nearly 72 percent of the dollars received. Therefore, we adjusted the average mail delivery time of 1.6 business days, based on postmarks, to compensate for mailing practices and practices of the post office in affixing postmarks.

Based on our two reviews and the consultant's study, we estimate that on average approximately 3.14 calendar days are required for mail delivery. Our calculation is shown in Appendix C. We found that an additional .35 calendar day is required for processing by the Board of Equalization before the receipts are deposited, and a .42 day for bank collection of Board deposits. Therefore, we estimate the total time

elapsed before money remitted by businesses can be invested to earn interest for the State is approximately 3.91 calendar days.

If the Board of Equalization collections of more than \$4.75 billion annually in sales, gasoline and alcohol and beverage taxes were invested at six percent 3.91 days earlier, gross additional interest income of approximately \$3.08 million would be earned by the State annually.

The State of California cannot begin using a bank collection account immediately, however, because the State is under contract with the Security Pacific National Bank through June 30, 1977. This contract was awarded under competitive bid procedures and was based on projected amounts of deposits, including taxes presently collected by the Board of Equalization. It provides that the specified state deposits of collections by the Board of Equalization and three other state agencies be made with the Security Pacific National Bank. In addition, officials of major California banks told us that the development of a state bank collection account system would take the cooperation of the entire banking community and would require at least one year to develop.

Certain bank costs, in addition to those presently incurred by the State, would be encountered if a state bank collection account were used and would reduce additional interest income received because of earlier deposits. These costs cannot be precisely determined until criteria for a state bank collection system have been designed by appropriate state officials, and until authorizing legislation has been developed.

Our preliminary estimate indicates that the costs of operating a bank collection account for the collection of Board of Equalization taxes alone would be approximately \$1.43 million annually. Details of this estimate are shown in Appendix D. We estimate that the use of a bank deposit system by the Board of Equalization, rather than the present system, would result in increased net interest income to the State of \$1.65 million annually.

In the Auditor General's report on The Department of Benefit Payments on "State Collection of Payroll Taxes and Related Administrative Practices of the Department of Benefit Payments" (No. 216.3, November 1975), the feasibility of a bank collection account for the State was discussed in detail.

The State Treasurer's Office and the Department of Finance both reviewed our report on the Department of Benefit Payments (No. 216.3) and expressed general agreement that a study of the feasibility of a bank collection account system is needed.

In summary, California statutes do not provide for remittance of sales, gasoline, and alcohol and beverage taxes directly to a bank collection account similar to the federal government's bank deposit system. Enabling legislation to authorize a bank collection system for the State has not been pursued by any of the State's revenue agencies. The conclusion and recommendation contained in our report on the Department of Benefit Payments (No. 216.3) are repeated.

CONCLUSION

The State's present system for collecting taxes results in less interest income to the State than should be possible under a system similar to that used by the federal government for collection of such taxes.

RECOMMENDATION

We recommend that legislation be enacted authorizing the use of a bank collection system for collection of state revenues. Further, we recommend that the State Board of Equalization, in conjunction with other major revenue agencies, the State Treasurer and Department of Finance, (1) develop criteria for a state bank collection system to be used by major revenue agencies, and (2) conduct negotiations with banks to determine the economic feasibility of such a system to be implemented by July 1, 1977.

SAVINGS

Implementation of a bank collection system by the State should result in additional interest income to the State on deposits of state sales, gasoline and alcohol and beverage taxes estimated to be \$1.65 million annually.

Memorandum

To : Mr. Glen H. Merritt
Chief Deputy Auditor General
Office of the Auditor General
925 L Street
Sacramento

Date : December 22, 1975

From : W. W. Dunlop
Executive Secretary

Subject: Report of the Auditor General -
State Board of Equalization

We appreciated the opportunity to review your draft report, delivered to us on December 17, on ways to accelerate collection of selected business-related taxes. Within the time allowed, we have reviewed the draft for clarity and accuracy as to content with respect to Board of Equalization operations. We are providing additional facts which you may wish to include in your report.

Since it appears that implementation of the recommendations would require legislation, we will evaluate the recommendations fully so that we may be in a position to express a Board position at the time specific legislation is before committees of the Legislature.

Here are our comments.

1. Of the 25 states reporting on the 20th of the month or earlier, four are on a quarterly reporting basis; and of the remaining 21, 15 allow a discount to the retailer for collecting the tax. This discount averages somewhere between 2 percent and 3 percent of the tax collected. If a 1 percent discount were allowed to California retailers, it would cost approximately \$38 million annually.
2. Over the 10 years prior to 1970, the trend in other states has been towards a later filing date. It appears there has been little change since that time.
3. While it is true, as stated in your report, that "only 21 percent of retailers in California remit tax as often as once a month," the percentage of the amount of tax remitted on a monthly basis is approximately 85 percent.

4. Because there are extensive credit sales made by many taxpayers and a lag in their actual collection of tax, they may not have use of the tax money for the full time periods shown in your report.
5. We agree that the use of a bank collection system should not be implemented without an economic feasibility study.

W. W. Dunlop

WWD:eh

cc: Honorable William M. Bennett
Honorable George R. Reilly
Honorable Richard Nevins
Honorable Kenneth Cory
Mr. Douglas D. Bell
Mr. Max Day

Summary of the Type and Number of Retailers Filing Sales Tax Returns and the Associated Due Dates for Remitting Sales Taxes Both Currently and Assuming That: 1) Current Prepayment Retailers Would Be Converted To A Monthly Reporting Basis and 2) All Monthly Returns With Accompanying Remittances Be Filed By the 20th Day of the Month Following the Month of Collection. Also Estimated Additional Annual Interest Earnings Each Assumed Change Would Generate Assuming a Rate of Return On Investment of Six Percent Per Year.

Type of Retailers Filing Sales Tax Returns	Number of Retailers As of June 30, 1975		Due Dates for Remitting Sales Taxes		Estimated Additional Annual Interest Earnings Based Upon Assumed Change ^{1/}
	Currently	Assumed Change	Currently	Assumed Change	
Prepayment Basis Retailers	32,955 (7%)	-0-	8 prepayments due 20 days after the month of the taxable sale plus 4 quarterly payments due the last day of the month following the quarterly period.	Convert current prepayment taxpayers to a monthly reporting basis. Monthly returns with remittances due 20 days after the month of the taxable sale.	\$2,600,000
Monthly Basis Retailers	65,277 (14%)	98,232 (21%)	12 monthly payments due the last day of the month after the month of the taxable sale.	Monthly returns with remittances due 20 days after the month of the taxable sale.	\$1,000,000
Quarterly Basis Retailers	235,394 (50%)	235,394 (50%)	4 quarterly payments due the last day of the month following the quarterly period.	No Change	-0-
Yearly Basis Retailers	139,582 (29%)	139,582 (29%)	1 payment due by the last day of the month following the fiscal year period.	No Change.	-0-
	<u>473,208 (100%)</u>	<u>473,208 (100%)</u>			<u>3,600,000</u>

^{1/}Does not include interest earnings on the local portion of sales taxes collected by the board. The state retains the local portion up to 50 days before distributing it to local jurisdictions. Interest earnings on the local portion are estimated at \$125,000 annually.

Summary of Estimated Additional
Annual Interest Earnings Based
Upon Three Alternative Due Dates
for Remitting Gasoline Taxes
Assuming a Rate of Return on Investment
of Six Percent Per Year

<u>Example</u>	<u>Number of Taxpayer Returns Required</u>	<u>Due Dates for Remitting Gasoline Taxes</u>		<u>Estimated Additional Annual Interest Earnings Based Upon Alternative</u>
		<u>Currently</u>	<u>Alternative</u>	
#1	115	12 monthly payments due on the first day of the second month of the distribution	24 semimonthly payments due 9 days after each semimonthly period ^{1/}	\$2,900,000
#2	115	same as above	12 monthly payments due 20 days after the month of the distribution ^{2/}	\$1,300,000
#3	115	same as above	12 monthly payments due 25 days after the month of the distribution ^{3/}	\$ 700,000

^{1/} Method currently used by the federal government

^{2/} Method currently used by 14 states

^{3/} Method currently used by 16 states

AUDITOR GENERAL'S ESTIMATE OF AVERAGE
TIME REQUIRED FOR MAIL DELIVERY TO SACRAMENTO
FROM CALIFORNIA BUSINESSES

Average time required for mail delivery based on postmarks	1.6 business days
Estimate of percentage of total dollar volume of returns mailed by employers late in the day so as not to jeopardize business interest accruals for the day ^{A/}	72%
Estimated percent of returns mailed late in the day which receive the next day's or following day's postmark ^{A/}	89%
Adjustment to reflect that an estimated 72 percent of the dollar volume of remittances received the next day's postmark 89 percent of the time (.72 x .89 days)	<u>.641</u> business days
Total business days	2.241 business days
Total calendar days (2.241 business days x 1.4 ^{B/})	<u>3.137</u> calendar days

^{A/} These estimates are based on our analysis of data contained in a consultant's report received by the Department of Human Resources Development in 1973.

^{B/} Conversion factor to convert business days to calendar days.

AUDITOR GENERAL'S PRELIMINARY ESTIMATE OF ADDITIONAL BANK COSTS
TO USE A STATE BANK COLLECTION ACCOUNT FOR
SALES, GASOLINE, ALCOHOL AND BEVERAGE TAXES COLLECTED
BY STATE BOARD OF EQUALIZATION

	<u>Number of Checks</u>	<u>Amount of Deposits</u>	<u>Bank Collection Time (Calendar Days)</u>	<u>Weighted Collection Time (bxc)</u>	<u>Bank Costs</u>
Bank Collection Costs					
Estimated 1974-75 collections	2,300,000	<u>\$4,725,000,000</u>			
Checks drawn and deposited in same California bank		2,508,000,000	-0-		
Checks drawn on California bank and deposited in another bank ^{A/}		1,351,000,000	1.4 days	\$1,891,000,000	
Checks drawn on out-of-state banks		<u>866,000,000</u>	2.8 days	<u>2,425,000,000</u>	
Totals		<u>\$4,725,000,000</u>		<u>\$4,316,000,000</u>	
Total weighted collection time + total deposits (\$4,316,000,000 ÷ \$4,725,000,000.)				.91344 days	
Estimated value of time required to make bank collections (\$4,725,000,000 x .91343 days x 6% per year interest income)					\$ 719,000.
Bank Service Charges (.3214 ^{B/} x 2,300,000 checks)					<u>739,000.</u>
Subtotal					1,458,000.
Less: Estimated bank cost reduction to the State Treasurer on Board of Equalization collection operations					<u>28,000.</u>
Estimated annual costs of a bank collection account for collection of sales, gasoline, alcohol and beverage taxes					<u>\$1,430,000.</u>

^{A/} The assumption is made that the state will have demand accounts with nine banks as it does at present.

^{B/} Average of bank service charges presented to Department of Human Resources Development by two major California banks in 1972, increased by annual inflation factor of eight percent a year for three years.

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps